

Electric Choice Question 21: How have various restructured or partially restructured retail markets handled the issues of low-income customers and uncollectibles?

Executive Summary

1. **Addressing low-income customers and uncollectibles (unpaid bills that are written off as uncollectible) is generally more complicated and challenging in deregulated or partially deregulated retail markets than in a fully regulated environment.** This is due to the number of providers, questions of state authority, profit motivation of competitive providers, data availability limitations, customer education needs, and other factors.
2. Nonetheless, **as part of the transition to deregulated market structure, many states created partial solutions by instituting programs to assist low-income customers.** These programs included discounted rates, levelized¹ and deferred² payment plans, and weatherization. These programs are typically administered centrally by a state agency or designated entity, while others are administered at the utility or provider level, with funds collected from utility ratepayers through universal service and/or system benefit charge (surcharge on utility bills) or state appropriations. These programs are similar to, but not necessarily identical to, those provided by utilities in regulated states.
3. Based on available data, it appears that **uncollectibles may be higher in deregulated states than regulated states.**³ Note, however, that data for several key states are missing or unavailable. Access to and reporting of uncollectibles data in deregulated states also appears to be more of a challenge.
4. **Alternative suppliers, at least in Michigan, do not take responsibility for low-income customers as they serve primarily very large industrial customers. Moreover, deregulation in Michigan, including the cost shifts resulting from the 10% cap, has disproportionately impacted low-income customers over the last decade and continues to do so.**

In modern society, electricity is often viewed as an essential service. During extreme weather events, the lack of electricity can lead to injury or even death. State and federal governments, as well as utility companies, have instituted safety nets to assist low-income customers through a variety of programs and policies such as bill payment assistance, disconnection moratoriums, weatherization, discounted rates, and levelized monthly and deferred payment plans.⁴ The objectives of these programs are generally to make electricity more affordable in both the near term (through payment plans, discounted rates, and emergency bill assistance relief) and long term (through reduced consumption). They are also often intended to reduce bad debt expense—which affects all customers—and the costly cycle of terminations/disconnection and reconnection of service. Bad debt from unpaid electric bills, known as “uncollectibles” in the industry, is not limited to low-income customers as it includes customers who do not pay their utility bills even though they have the financial means to do so.

¹ Levelized payment plans allow the monthly bill to stay about the same over the year to reduce high bills during high usage months.

² Deferred payment plans allow the customer to pay off past-due debts over a period of time.

³ See National Association of Regulatory Utility Commissioners Consumer Affairs Committee, 2008 Individual State Report by the NARUC Consumer Affairs Subcommittee on Collections Data Gathering, Nov. 17, 2008.

⁴ Regulated utilities also have an “obligation to serve” all customers in a non-discriminatory manner. While customers can still be disconnected for failure to pay the utility under regulation, there has traditionally been utility and other forms of support to reconnect customers. The “obligation to serve” issue is discussed under response to choice question #22.

Electric Choice Question 21: How have various restructured or partially restructured retail markets handled the issues of low-income customers and uncollectibles?

1. Addressing low-income customers and uncollectibles is generally more complicated and challenging in deregulated or partially deregulated retail markets than in a fully regulated environment.

Issues related to uncollectibles and low-income customers are present under both regulated and deregulated industry structures, and raise many public policy questions – namely who pays and how, and what is the scale, efficacy, and impact of various programs. There are additional challenges to serving low-income customers in a deregulated market because of the number of providers (without an obligation to serve customers), profit motivation, limited regulatory oversight, and other factors. Recognizing these challenges, many states adapted the funding and delivery mechanisms for low-income programs as part of the transition to deregulation, as discussed further below.

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Because all states (or their designees) administer federal low-income assistance funds, namely the LIHEAP and the Weatherization Assistance Program, the focus of this answer is on state-specific policies in states that have deregulated or partially deregulated their electric industry. The experience in regulated states is also included as a reference, as applicable.

2. As part of the transition to deregulated market structure, many states created partial solutions by instituting programs to assist low-income customers.

The major low-income policies and programs in deregulated or partially deregulated states are highlighted below. Even though the specific approaches and funding mechanisms often change through the deregulation process, all states have continued programs to assist low-income customers in some fashion.⁵

In Exhibit 1, rate discounts are either flat discounts or they are tiered based on a percentage of income for qualifying customers. These discounts range from about 10% to over 40% of the monthly utility bill. Many programs offer payment plans that allow customers who maintain payments to reduce or eliminate their past-due amounts, or arrearages, over time. Payment plans are often required to be offered prior to disconnection. It is also common for states to have other limitations on service disconnections, at least for vulnerable (elderly, ill) customers, during extreme weather events, or while there is a pending billing dispute. Income and other eligibility criteria also vary considerably among states, ranging from 125–250% of the federal poverty level; several states include other criteria such as age, qualification under other social service benefit programs, or veteran status.

⁵ See LIHEAP Clearinghouse for state-by-state summaries of such programs.

Electric Choice Question 21: How have various restructured or partially restructured retail markets handled the issues of low-income customers and uncollectibles?**EXHIBIT 1. Low-Income Rate Assistance and Energy Efficiency Programs
by Type and State—Deregulated States**

State	Rate discount (recurring)	Emergency payment and/or credits on arrearages	Low-income weatherization/energy efficiency	Deferred payment plans
California	Yes	Yes	Yes	Yes
Connecticut	No	Yes	Yes	Yes
Delaware	No	Limited	Limited	Not required
D.C.	Yes	Yes	Yes	Yes
Illinois	Yes	Yes	Yes	Yes
Maine	Yes	Yes	Yes	Yes
Maryland	Yes	Yes	Yes	Yes
Massachusetts	Yes	Yes	Yes	Yes
New Hampshire	Yes	Yes	Yes	Yes
New Jersey	Yes	Yes	Yes	Yes
New York	Yes	Yes (some)	Yes	Yes
Ohio	Yes	Yes	Yes	Yes
Texas	Yes	No	Yes	Yes
Pennsylvania	Yes	Yes (some)	Yes	Yes
Rhode Island	Yes	Yes	Yes	Yes

SOURCE: LIHEAP Clearinghouse.

NOTE: Neither charitable programs funded and administered by local nonprofit organizations or an electric provider's collection of voluntary customer contributions to support low-income programs is included.

The funding amounts, mechanisms, and the scale of these programs vary among states, as shown in Exhibit 2. Most programs are funded by utility surcharge(s) assessed to all (or most) customers, in the form of a universal service charge or system benefit charge. Delaware appears to have the most limited program, in terms of total and per capita expenditures as well as availability of services. California, Pennsylvania, and New Jersey have the highest per capita spending at around \$30. For comparison, Michigan expenditures were reported as nearly \$97 million in 2010, or \$9.81 per capita (population of 9,883,640).⁶

**EXHIBIT 2. 2010 State/Utility Funding for Low-Income Rate Assistance
and Energy Efficiency – Deregulated States**

State	Total \$ Utility/state/local rate assistance (2010)	Population (2010)	Per capita
CA	\$1,182,931,576	37,253,956	\$31.75
CT	\$14,585,300	3,574,097	\$4.08
DE	\$1,135,214	897,934	\$1.26
DC	\$7,419,177	601,723	\$12.33
IL	\$66,019,713	12,830,632	\$5.15

⁶ U.S. Department of Health and Human Services, 2010 State-by-State Supplements to Energy Assistance and Energy Efficiency, Compiled by the LIHEAP Clearinghouse. Available at: <http://www.liheap.ncat.org/Supplements/2010/supplement10.htm>.

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State	Total \$ Utility/state/local rate assistance (2010)	Population (2010)	Per capita
ME	\$9,732,856	1,328,361	\$7.33
MD	\$82,830,513	5,773,552	\$14.35
MA	\$119,414,151	6,547,629	\$18.24
NH	\$20,910,538	1,316,470	\$15.88
NJ	\$272,097,609	8,791,894	\$30.95
NY	\$202,158,588	19,378,102	\$10.43
OH	\$176,241,089	11,536,504	\$15.28
PA	\$394,718,101	12,702,379	\$31.07
RI	\$9,362,371	1,052,567	\$8.89
TX	\$119,000,000	25,145,561	\$4.73

SOURCE: <http://liheap.ncat.org/Supplements/2010/supplement10.htm>

In addition to the traditional low-income programs, some states have explored the concept of purchasing pools for low-income customers. This was attempted in Connecticut in conjunction with a purchasing pool for state buildings, but the state was unable to obtain bids when low-income customers were included in the pool. In Vermont, an effort to form a low-income energy cooperative to provide aggregated purchasing plus other services such as weatherization was also unsuccessful. Texas had challenges with no bidders for the Provider of Last Resort (POLR) service, which was designed to serve customers whose retailers left the market suddenly (e.g., bankruptcy) and customers who did not pay their provider (only the POLR could physically disconnect service when deregulation was first introduced). The Public Utility Commission of Texas (PUCT) had to essentially force providers to serve this function and establish the rates in administrative proceedings because the competitive bidding process outlined in the law was unsuccessful. (The POLR rates were, and continue to be, considerably higher than market prices so they are a last resort option for low-income customers.) Ohio is now pursuing a new program to aggregate electric supply to low-income customers eligible for discounted rates under the Percentage of Income Payment Plan, or PIPP). The state would competitively auction the supply of retail electric service for these customers to bidders that are certified by the state's PUC. Results of this initiative have yet to be determined.

Connecticut, Vermont, and Texas were unsuccessful in obtaining bids to serve low-income customers.

For comparison, Michigan expenditures were reported as nearly \$97 million, or \$9.81 per capita (population of 9,883,640).

3. Uncollectibles may be higher in deregulated states than regulated states.

The issue of uncollectibles is complicated and challenging, particularly in deregulated states. Following are several potential concerns that have arisen with uncollectibles in these states.

- **Higher uncollectibles in deregulated states**—Based on data available from NARUC, it appears that the uncollectibles rate is higher in deregulated states than regulated states. That is, the percentage of residential billings written off as uncollectible, known as “gross write-offs ratio,” is

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about two-thirds higher in deregulated states.⁷ This ratio is the most commonly used long-term measure of collections systems performance. Moreover, the percentage of residential electric provider “billings in debt” in deregulated states is about twice the percentage in regulated states.⁸ The percentage of billings in debt is an indicator of customer debt and potential collections risk.⁸ Data for certain states were not reported and/or are unavailable. In addition, these data do not account for differences among states due to unemployment and other economic conditions that likely influence uncollectibles.

- **Data limitations**—Consistent data on uncollectibles are challenging to obtain, particularly in deregulated markets. In the 2008 NARUC survey, 5 of the 10 states that reported that data were not available or did not respond were deregulated states; thus, state-level data were not available for a third of the deregulated states, including Texas, Maryland, Delaware, New York, and Ohio. In regulated states, uncollectible expenses are reviewed in utility rate cases and, therefore, are more readily available.
- **Past due amounts left with prior provider**—In a competitive market with multiple electric providers, a customer can switch to a new provider and, depending on the market rules, leave the prior provider with an unpaid balance. This customer behavior seems to have at least contributed to the substantial increase in uncollectibles in Texas compared to its pre-deregulation era. For example, a group of electric providers filed comments with the PUCT indicating that their uncollectible amounts were 4% of gross revenue compared to 0.125–0.675% reported by regulated utilities in Texas prior to deregulation.⁹ Data are not available on the amount or proportion of a competitive provider’s uncollectible expense borne by shareholders compared to customers. Nonetheless, it is logical that these costs are ultimately passed through to other customers. The providers emphasized that uncollectible debt has a “significant cost impact on all electric customers”¹⁰ by increasing the price of electric service. Controversial rule changes in 2011 now allow providers, under certain circumstances, to prevent a customer from changing providers until the deferred balance is paid. One of the concerns with this approach is that it may delay or restrict customers from obtaining service.
- **Limitations on disconnection and impacts on uncollectibles**—Disconnection of service can be a powerful motivator for customers to pay their bills. Even the threat of disconnection often prompts customers to act. In deregulated states, there are often limitations on which entities are authorized to order disconnection of service (e.g., limiting the authority to the incumbent utility or default provider). Such restrictions, while intended to protect customers and streamline the process, have the potential to drive up uncollectibles. This is not an issue in regulated states with vertically integrated utilities.

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⁷ See NARUC, 2008 Individual State Report.

⁸ See NARUC, 2008 Individual State Report. This metric is calculated by dividing the total annual billings by the total monthly average dollars in debt.

⁹ Joint Responders Comments to Staff Questions, Filing in Public Utility Commission of Texas, Project No. 36131, Rulemaking Related to Disconnection of Electric Service and Deferred Payment Plans, October 26, 2009, p. 2.

¹⁰ Ibid., p. 1.

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- 4. Alternative energy suppliers, at least in Michigan, do not take responsibility for low-income customers as they serve primarily very large industrial customers. Moreover, deregulation in Michigan, including cost shifts resulting from the 10% cap, has disproportionately impacted low-income customers over the last decade.**

AESs in Michigan are not responsible for serving or assisting low-income families. In contrast, electric utilities fund a variety of low-income assistance programs and must serve all customers on a non-discriminatory basis. Because low-income families pay a higher proportion of their household income on utility bills, these families face a disproportionate share of the costs resulting from deregulation in Michigan. These cost shifts are discussed under DTE Electric Choice Question 1.